

ENERGY/ICRJ/RHG

Decision _____

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF
CALIFORNIA**

In the Matter of the Application of SOUTHERN CALIFORNIA EDISON COMPANY U-338-E to issue, sell, and deliver one or more series of Debt Securities and to guarantee the obligations of others in respect of the issuance of Debt Securities, the total aggregate principal amount of such indebtedness and guarantees not to exceed \$3.0 billion; to execute and deliver one or more indentures; to sell, lease, assign, mortgage, or otherwise dispose of or encumber utility property; to sell, lease, assign, mortgage, or otherwise dispose of or encumber utility property; to issue, sell and deliver in one or more series, an aggregate amount not to exceed \$300 million par or stated value of Cumulative Preferred Stock -- \$25 Par Value, Cumulative Preferred Stock -- \$100 Par Value, Preference Stock or combination thereof and for an exemption from the Commission's Competitive Bidding Rule.

Application 03-07-030
(Filed July 11, 2003)

OPINION

Summary

This decision grants Southern California Edison Company (SCE) the authority requested in Application (A.) 03-07-030 (Application).

SCE requests authority, pursuant to §§ 816 to 818, 821, 830, and 851

of the California Public Utilities (Pub. Util.) Code for the following:

1. To issue, sell and deliver from time to time, one or more series of debt securities, including but not limited to first and refunding mortgage bonds, debt securities secured by a pledge of its accounts receivable, debentures, notes, overseas indebtedness, foreign currency denominated securities, medium term notes, preferred securities, commercial paper, extendible commercial notes, other floating rate debt, credit or loan agreements, and other evidences of indebtedness (collectively, "Debt Securities") in an aggregate principal amount not to exceed \$3.0 billion, with all such issuances to take place at any time from the date of authorization until the aggregate principal amount authorized has been fully utilized;
2. To issue, sell and deliver one or more series of Cumulative Preferred Stock--\$25 Par Value, \$100 Cumulative Preferred Stock--\$100 Par Value, and Preference stock, or any combination thereof, as authorized in SCE's articles of incorporation (collectively, "Preferred Stock") in an aggregate amount not to exceed \$300 million par or stated value;
3. To guarantee the securities of regulated direct or indirect subsidiaries or affiliates of SCE (such subsidiaries and affiliates generally referred as "affiliates") or of governmental entities that issue securities on behalf of SCE;
4. To renew and/or refund commercial paper, extendible commercial notes and other floating or variable rate Debt Securities, so that the combined term of the obligations may exceed twelve months without the need for further authorization from the Commission;

5. To arrange credit agreements or other credit facilities as may be necessary for the purpose of issuing the Debt Securities, and to modify such credit facilities without further authorization from the Commission;
6. To enter into caps, collars, swaps, and hedges;
7. To execute and deliver one or more indentures or supplemental indentures;
8. To sell, lease, assign, mortgage, or otherwise dispose of or encumber utility property in connection with the issuance and sale of Debt Securities;
9. To pledge or otherwise dispose of or encumber accounts receivable in connection with the issuance and sale of Debt Securities;
10. To issue, sell, and deliver Debt Securities by public offering or private placement;
11. To be exempt from the Commission's Competitive Bidding Rule with respect to all Debt Securities, except fixed rate Debt Securities in the form of first and refunding mortgage bonds, intermediate and long-term notes, and debentures (fixed rate bonds and debentures) of \$200,000,000 or less in principal amount that are sold publicly in the domestic markets; and
12. To use certain procedures for Debt Securities subject to the Competitive Bidding Rule.

Notice of the filing appeared on the Commission's Daily Calendar of July 23, 2003. No protests have been received.

Background

SCE is a corporation organized and existing under the laws of the State of California, and is primarily engaged in the business of generating, purchasing, transmitting, distributing and selling electric energy for light, heat and power in portions of central and southern California as a public utility subject to the jurisdiction of this Commission. SCE's properties, substantially all of which are located within the State of California, primarily consist of hydroelectric and thermal electric generating plants, together with transmission and distribution lines and other property necessary in connection with its business.

Discussion

SCE seeks authorization to obtain debt capital in an aggregate principal amount not to exceed \$3.0 billion and to issue Preferred Stock of up to \$300 million par or stated value.

The principal amount, form and terms and conditions of each series of Debt Securities will be determined by SCE's board of directors or management according to market conditions at the time of sale or issuance. The Debt Securities may bear a fixed, floating or variable rate of interest and may be issued at par or with an original issue discount or premium. The Debt Securities will be issued with maximum maturities of 40 years for first and refunding mortgage bonds, and 49 years for debentures, notes, preferred securities, and credit or loan agreements. Commercial paper and other forms of short-term debt may be issued with maturities of 364 days or less, but may be rolled over for periods exceeding 12 months. SCE proposes to issue Debt Securities directly or through an

affiliate that will in turn lend or otherwise transfer the proceeds to or for the benefit of SCE.

Types of Debt Securities

The types of Debt Securities that SCE proposes to issue are similar to those authorized in D.00-10-063 dated October 19, 2000 in A.00-07-006, except for the addition of accounts receivable financing:

1. Secured Debt Securities

SCE may issue secured Debt Securities, which generally would be first and refunding mortgage bonds under SCE's first mortgage trust indenture dated October 1, 1923, as amended and supplemented. The bonds may be sold to underwriters who in turn will offer the bonds to investors, or may be sold directly to investors either with or without the assistance of a private placement agent. Bonds may be delivered in connection with a pollution control financing. Bonds may be registered with the Securities and Exchange Commission (SEC), depending on the method of offering and sale, and may be listed on a stock exchange.

2. Accounts Receivable Financing

SCE may issue Debt Securities secured by a pledge, sale or assignment of SCE's accounts receivable. SCE believes it is possible to obtain financing through accounts receivable financings at interest rates lower than SCE's short-term borrowing costs. SCE anticipates that the transactions would be structured to be a true sale for bankruptcy purposes, a sale for financing reporting, and debt for tax purposes, although other structures may be developed using accounts receivable as security or collateral.

3. Unsecured Debt Securities

SCE may issue unsecured Debt Securities as debentures, notes, preferred securities, or other evidences of indebtedness. These may be issued under trust indentures, including but not limited to, a senior indenture dated January 15, 1993, and a subordinated trust indenture dated May 1, 1995. Notes may be sold to underwriters who in turn will offer Debt Securities to investors, or may be sold directly to investors, either with or without the assistance of a placement agent. Debentures or other unsecured Debt Securities may also be issued as part of an issuance of trust preferred securities. In such an issuance, SCE would create a subsidiary in the form of a trust that would issue preferred securities to the public. The preferred securities would represent an interest in the debentures issued by SCE to the trust, and would also be guaranteed by SCE. While the debentures and preferred securities are legally debt securities, they are viewed by rating agencies as similar to an equity security. Notes may be registered with the SEC and may be listed on a stock exchange.

4. Overseas Indebtedness

SCE and/or affiliate may issue Debt Securities in the form of debentures, notes or other evidences of indebtedness may be issued and sold ultimately to foreign investors and would likely be denominated in U.S. dollars. Such overseas indebtedness may be sold to underwriters who in turn may offer the Debt Securities to investors, or may be sold directly to investors, either with or without the assistance of a placement agent. This type of financing can be advantageous when foreign demand for dollar-denominated securities is high. Overseas indebtedness would be issued and sold only when issuances result in an overall cost of money to

SCE and/or affiliate lower than issuances of comparable domestic debt securities in the U.S. market.

5. Foreign Currency Denominated Securities

SCE and/or affiliate may issue debentures, notes or other Debt Securities with the payment of interest or principal, or both, denominated in a foreign currency. Such foreign currency securities may be sold to foreign or domestic investors and may be denominated in any major foreign currency, including, but not limited to, European euro; British pound; Australian, New Zealand, or Canadian dollar; Japanese yen; or Swiss franc. Foreign currency securities will be issued only when such issuances result in an overall cost of money to SCE, including all transaction and foreign exchange contract costs, lower than issuance of comparable U.S. dollar denominated securities. In conjunction with the issuance of foreign currency securities, SCE and/or affiliate may enter into one or a series of forward contracts by which a counterparty would be obligated to pay the foreign currency necessary to make principal, premium, if any, and interest payments on the foreign currency security. In exchange, SCE and/or affiliate would pay a counterparty U.S. dollars based on a predetermined formula. The forward contract would be with a major financial intermediary, such as a commercial or investment bank, or directly with a principal in need of U.S. dollars. The cost of the forward contracts will be included for determining the overall cost of foreign currency securities.

6. Medium-Term Notes (MTNs)

MTNs may be offered as part of a program on a continuous or periodic basis. MTNs may be sold privately or publicly in the domestic or foreign capital markets. MTNs may require registration under the federal

securities laws. MTNs may be sold through a private placement agent and to underwriters who in turn offer them to investors, or may be sold directly to investors. MTNs may be listed on a stock exchange.

7. Direct Loans

SCE anticipates that from time to time it may be advantageous to borrow directly from banks, insurance companies, or other financial institutions. Loans would be secured only if the overall cost of money would be lower than that available through the issuance of other forms of Debt Securities or when necessary to as an interim arrangement or for other reasons.

8. Commercial Paper and Extendible Commercial Notes

SCE may issue Debt Securities as commercial paper or refund or roll over previously issued commercial paper. This may be sold privately or publicly in the domestic or foreign capital markets through placement agents who market commercial paper on a reasonable efforts basis, or directly to investors. Although commercial paper may be issued without separate liquidity support, SCE or an affiliate may arrange a credit agreement with banks or other financial institutions to provide liquidity support for the commercial paper indebtedness. The cost of commercial paper will include the effective yield plus any expenses associated with an issue (dealer commissions, issuing and paying agent fees, and credit agreement fees). Extendible commercial notes may also be issued (without credit agreement support). The notes would be issued with a maturity of less than 364 days, but at maturity they may be extended for a period in excess of one year if not paid or remarketed.

9. Other Floating Rate Debt

Opportunities may arise to issue other forms of floating or variable rate debt that may lower the overall cost of money. This may include debt instruments bearing interest based on various short-term interest rate indices, bankers' acceptances, and other floating or variable rate instruments, which may become available in the capital markets at attractive rates.

Features To Enhance Debt Securities

SCE requests authorization to include at its discretion one or a combination of the following additional features described on pages 9 to 12 of the Application. Such features will be used as appropriate to improve the terms and conditions of the Debt Securities and to lower overall cost of money.

1. Credit Enhancements

SCE may obtain credit enhancements for Debt Securities, such as letters of credit, standby bond purchase agreements, surety bonds or insurance policies, or other credit support arrangements. Such credit enhancements may be included to reduce interest costs or improve other credit terms. The cost would be included in the cost of the Debt Securities.

2. Redemption Provisions

Each issue of Debt Securities may contain a provision allowing it to be redeemed or repaid prior to maturity or after a certain restrictive period at a premium over par or at a stated price.

3. Put Options

The cost of Debt Securities may be reduced by the inclusion of a put option. This allows the holders of Debt Securities to require SCE or an

affiliate to repurchase all or a portion of each holder's securities. This is the reverse of a call provision whereby the debt holders are required to sell back the Debt Securities to SCE or an affiliate. Debt holders may be willing to accept a lower interest rate in exchange for the protection that a put option offers them.

4. Sinking Funds

SCE anticipates that from time to time the cost of Debt Securities may be reduced by the use of a sinking fund. A sinking fund may require SCE periodically to redeem, repurchase or retire a specified principal amount of Debt Securities.

5. Tax-Exemption

Debt Securities may be issued through a governmental body, political subdivision or other conduit issuer to obtain tax-exempt status for the securities. This will be used whenever SCE's facilities qualify for tax-exempt financing under federal or state law. In this structured financing, SCE would unconditionally guarantee or otherwise secure the issuer's obligations to its debt holders.

6. Warrants

The cost of Debt Securities may be reduced by attaching warrants to such securities. Each warrant would entitle the holder to purchase an additional bond, note or debenture or a share of capital stock. The debt security to be issued upon exercise of debt warrant would bear interest at a pre-established rate and would mature at a pre-established time. Debt warrants would most likely be exercised if interest rates decline below the pre-established rate and would most likely expire unexercised if rates remain above the pre-established rate.

Interest Rate Caps, Collars, Swaps and Hedges

SCE seeks authority to reduce the risks associated with interest rate volatility through various financial instruments. In normal market conditions, floating interest rate debt (for purposes of this Application, all Debt Securities with floating or variable interest rates) initially carries a lower interest rate than comparable fixed rate debt. The floating rate could increase so that the average floating rate over the life of the security is higher than the fixed rate.

In order to manage interest rates risk, SCE may enter into an interest rate cap agreement, interest rate floor agreement, interest rate collar agreement and interest rate swap agreement. The contracts may include hedging future fixed rate debt issuances such as Treasury locks, caps and collar agreements. The use of these interest rate management contracts are not considered as separate debt for purposes of calculating SCE's remaining financing authority, since the use of such contracts would not affect the amount of the underlying securities issued.

A cap is a negotiated maximum rate. If floating rates increase above the cap or ceiling rate, the utility pays only the ceiling rate. Sometimes the counterparty to the contract desires to have a floor rate. If floating rates fall below the floor rate, the utility pays the floor rate. Such floor and ceiling rates are called interest rate collars because the interest rate fluctuates within a band that is negotiated.

Borrowing costs may be reduced by issuing fixed or floating rate debt and entering into one or a series of interest rate swap contracts to convert fixed interest payments into favorable floating rate payments or vice versa, or to convert floating rate payments tied to one index (e.g., London Interbank Offer Rate, or LIBOR) into floating rate payments tied to

another index (e.g., the Federal Reserve Composite Rate for Commercial Paper). If the resulting interest rate is lower than what the utility could have obtained by issuing comparable security directly, then the result is a savings for ratepayers. Swaps may be denominated in U.S. dollars or in a foreign currency.

Other types of contracts to hedge future fixed rate debt are Treasury lock, cap, and collar agreements. Treasury locks are used to lock in the forward rate of a specified Treasury or other security on which a fixed rate debt financing will be priced at a specific date in the future. Treasury caps are used to lock in the maximum forward rate of a specified Treasury or other security on which a fixed rate debt issuance will be priced at a specified date in the future. Treasury collars are used to lock in a range of forward rates of a specified Treasury or other security on which a fixed rate debt issuance will be priced at a specified date in the future. There are also contracts which hedge the overall cost of a debt issuance, not just the underlying index rate. This is accomplished through the use of forward starting swaps, whereby an issuer contracts to pay a predetermined rate at a specified date in the future.

Preferred Stock

SCE proposes that each offering of Preferred Stock will bear such terms and conditions as may be approved by SCE's board of directors at or immediately prior to the date of issuance or sale in light of market conditions that may exist at that time. The rights, preferences and privileges applicable to each series of Preferred Stock will be fixed by resolution of SCE's board of directors, and a certificate of determination of

preferences that includes the content of such resolution will be filed with the California Secretary of State.

Preferred Stock may be issued in one or more offerings with the method of sale, price, dividend rate, liquidation preferences and other rights, preferences, privileges and restrictions to be determined prior to each offering while considering then prevailing market conditions. SCE anticipates that the terms of the Preferred Stock may include, but will not be limited to: (i) restrictive redemption provisions; (ii) dividend rates which may be fixed, floating, adjustable or which may be set by a market auction procedure; (iii) mandatory sinking funds; and (iv) such other provisions as SCE may deem appropriate in connection with its issuance and sale of the Preferred Stock.

Use of Proceeds

SCE believes that under certain scenarios, it could find itself with just above \$100,000,000 in remaining long-term financing authority before the end of this year. With interest rates currently near historic lows, SCE believes it is in ratepayers' best interests that it be positioned to promptly seize financing opportunities, both before and particularly once its investment grade credit rating is restored. This objective can be met best if SCE is granted the authorization requested in the Application.

SCE proposes to use the proceeds from the issuance and sale of the requested Debt Securities and Preferred Stock, other than for payment of accrued interest, if any, and after payment or discharge of obligations incurred for expenses incident to their issue and sale: (1) for the acquisition of property; (2) for the construction, completion, extension or improvement of SCE's facilities; (3) for the retirement or the refunding of

approximately \$2,300,000,000 debt and equity securities previously issued and upon which SCE paid the fees prescribed by Pub. Util. Code 1904 and 1904.1; and/or (4) to reimburse SCE for money it has actually expended from income, or from any other money in its treasury not secured by or obtained from the issue of stocks, or stock certificates or other evidences of interest or ownership, or bonds, notes, or other evidences of SCE's indebtedness, for any of the aforesaid purposes, except maintenance of service and replacements. The amounts so reimbursed will become part of SCE's general treasury funds.

We will authorize SCE's proposed Debt Securities in the aggregate principal amount of \$3.0 billion and Preferred Stock in an aggregate amount of \$300 million.

Pub. Util. Code § 817(d) allows a public utility to issue stock or evidences of indebtedness payable at period of more than 12 months for the discharge or lawful refunding of its obligations.

Pub. Util. Code § 823(d) states that no note payable at a period of not more than 12 months after the date of issuance of such note shall, in whole or in part, be refunded by any issue of stocks or stock certificates or other evidence of interest or ownership, or of bonds, notes of any term or character, or any other evidence of indebtedness without the consent of the Commission.

Pub. Util. Code § 1904(b) states that there is no fee on such portion of any issue that will be used to guarantee, take over, refund, discharge, or retire any stock, bond, note or other evidence of indebtedness on which a fee has been paid to the Commission.

Pursuant to Pub. Util. Code § 818, we will approve SCE's proposed debt issue, the proceeds of which are to be used to retire existing long-term debt securities and for capital expenditures.

Pursuant to Pub. Util. Code § 823(d), we will allow the continuous refunding of previously issued short-term debt securities (commercial paper and extendible commercial notes) such that the combined terms of the refunded issues and the new debt securities may exceed twelve months. However, SCE must maintain or bring down the aggregate amount of short-term borrowings to 5% of the par value of the other securities (long-term debt, preferred stock and common stock) then outstanding at least once every twelve months.

Pursuant to Pub. Util. Code § 851, we will allow SCE to encumber its property whenever such encumbrance serves to secure the debt authorized herein.

Pub. Util. Code § 701.5 prohibits utilities from issuing bonds or notes, guaranteeing financial transactions, or pledging utility assets for or on behalf of their subsidiaries, but allows exceptions in some instances. By D.98-02-104 dated February 19, 1998 in A.91-11-032, SCE was granted authority to issue Debt Securities, to guarantee, or to pledge its assets on behalf of a subsidiary or any other regulated affiliate whose revenues and expenses are considered during SCE's Performance-Based Ratemaking filings¹.

D.00-10-063 granted SCE the authority to use a special purpose entity for the purpose of issuing trust preferred securities. Having

¹ Performance-based ratemaking for SCE is scheduled to expire on the effective date of SCE's 2003 General Rate Case decision.

explicitly determined them reasonable previously, we see no reason to object, and pursuant to Pub. Util. Code § 701.5 we will grant SCE the authority to use a subsidiary to facilitate the issuance of trust preferred securities with the same conditions.

SCE's subsidiary should be created solely for the purpose of issuing securities to the public or privately to support SCE's operations or service. SCE should have 100% ownership and control of the subsidiary. In addition, the activities of the subsidiary should be subject to federal or state securities regulation and to the regulation of the Commission through its oversight of SCE's financing activities.

For purposes of this Application, SCE will be subject to the following conditions in relation to interest rate swaps, caps, collars and currency exchange contracts:

1. SCE will separately report all interest income and expense arising from all swap and hedging transactions in its report to the Commission.
2. Swap and hedging transactions will not exceed at any time 20% of SCE's total long-term debt outstanding.
3. If SCE elects to terminate a swap or hedging transaction before the original maturity or the swap or hedging partner terminates the agreement, all costs associated with the termination will be subject to review in SCE's next cost of capital proceeding.
4. Swap and hedging transactions, and other derivative financial instruments carrying potential counterparty risk which SCE receives in connection with long-term debt, must have counterparties with investment grade credit ratings of two notches higher than SCE.

5. SCE will make available, within 30 days of request: (i) a report that would include a summary of the swap or hedge transaction, including but not limited to the term, costs of the transaction (fees or other expenses), dollar amount involved, and SCE's rationale for the transaction; and (ii) SCE's estimated costs for the "alternative" or unhedged transaction.

We place SCE on notice that the reasonableness of any resulting interest rate and cost of money arising from debt capital are normally subject to review in cost of capital or general rate case proceedings.

Competitive Bidding Rule

Commission Resolution (Res.) No. F-616 dated October 1, 1986, states, "Requests for exemption from the [Competitive Bidding] Rule will only be entertained for debt issues in excess of \$200 million, and will only be granted upon a compelling showing by a utility that because of the size of the issues, an exemption is warranted."

SCE believes that compelling circumstances exist for an exemption from the Competitive Bidding Rule for the requested debt issues in the Application, in excess of \$200,000,000 principal amount. Those circumstances have been previously addressed in SCE's Expedited Petition for Modification of D.88-07-069, D.98-12-104, D.00-10-040, and D.00-10-063 (Expedited Petition) filed on January 25, 2001, and subsequent filings made with the Commission in such proceeding and discussed in D.03-06-011, which granted SCE's request for Competitive Bidding Rule exemption. Because the conditions described therein continue to apply, without

attempting to repeat them, the reasons supporting SCE's exemption request can be generally summarized as follows:

1. Competitively bidding larger issues may result in higher costs of funds to SCE due to the fragmenting of the investment banking community into competitive bidding syndicates and the increased risk thereby effectively assumed by each of them;
2. The competitive bidding process is fundamentally designed for highly-rated, well-known issuers who do not need to avail themselves of the opportunities for communicating to, and receiving market intelligence from, the investment community in order to achieve a successful offering; and
3. Competitive bidding may leave SCE limited and undesirable options for obtaining needed financing.

For these reasons, SCE believes its request for Competitive Bidding Rule exemption for debt issued in excess of \$200,000,000 in principal amount is within the purview of the modified and prevailing conditions of enforcement and exemptions defined in Res. F-616.

SCE also requests exemption from the Competitive Bidding Rule for debt issues for which competitive bidding is not viable or available. Such debt issues are: obtaining loans, issuing variable or floating rate Debt Securities, issuing Debt Securities as part of a trust preferred securities transaction, issuing debts secured by a pledge of its accounts receivable, and issuing overseas indebtedness, foreign currency securities, and notes and tax-exempt securities.

SCE asserts that it is often not possible to issue the previously identified types of debt on favorable terms by using the Competitive

Bidding Rule. SCE states that it intends to deviate from the Competitive Bidding Rule only when it is reasonably confident that the deviation will allow it to obtain debt at lower cost or upon more favorable terms and conditions.

In addition, to provide added flexibility to take advantage of market opportunities, SCE requests permission to use the following procedures for those situations where the Competitive Bidding Rule remains applicable:

1. To shorten the period of time between the issuance of an invitation for bids and the scheduled receipt of bids to a period which is the shortest time reasonably required in order to obtain a sufficient number of bids from underwriters or purchasers or groups thereof (which time period may be as short as a few hours);
2. To accelerate, postpone, or cancel the scheduled date and time for receipt of bids;
3. To reject all bids submitted;
4. To request the resubmission of bids;
5. To reschedule subsequent receipt of bids;
6. To vary the amount, terms, and conditions of the Debt Securities submitted for bids; and
7. To waive the requirement for newspaper publication of the above items.

SCE states in the Application that other fixed rate Debt Securities in the form of first and refunding mortgage bonds, intermediate and long term notes, and debentures (fixed rate bonds and debentures), of \$200,000,000 or less in principal amount (other than tax-exempt securities) that are sold publicly in the domestic market will be offered through competitive bidding².

We grant SCE's request for the previously described exemptions from the Competitive Bidding Rule. We do so based on SCE's representation that granting the exemptions will enable SCE to obtain debt in a manner advantageous to SCE and its ratepayers. This decision makes no finding regarding the reasonableness of the rates, terms, and conditions of debt issued by SCE pursuant to the exemptions granted herein.

When SCE's bond rating³ rises to "A", all underwritten public offerings of fixed interest rate debentures and first mortgage bonds (other than tax-exempt securities) in the principal amount of \$200 million or less that will be effected in the domestic capital markets must be competitively bid.

² Because the Competitive Bidding Rule applies only to utilities who have ratings of "A" or higher, SCE does not intend to competitively bid issues of fixed rate bonds and debentures of \$200,000,000 or less in principal amount, until such time as it meets the minimum bond rating threshold.

³ Fitch Ratings dated September 9, 2003 raised the credit ratings of SCE as follows: first mortgage bonds to 'BBB-' from 'BB'; unsecured debt to 'BB' from 'BB-'; and preferred securities to 'B+' from 'B'.

Financial Information

For the three months ended March 31, 2003, SCE reported total operating revenues of \$1,823,482,000 and net income of \$105,139,000, as shown in its Statement of Income, attached as Exhibit A, A-23 to the Application. SCE's Balance Sheet at March 31, 2003, shown also as part of Exhibit A, A-24 and A-25, is summarized as follows:

<u>Assets and other Debits</u>	<u>Amount</u>
Net Utility Plant	\$10,290,723,000
Other Property and Investments	2,620,884,000
Current Assets	2,883,407,000
Deferred Charges	<u>4,242,271,000</u>
Total	<u>\$20,037,285,000</u>
Common Shareholder's Equity	\$ 4,487,365,000
Preferred Stock	270,085,000
Long-term Debt	5,119,252,000
Current Liabilities	4,005,439,000
Minority Interest	395,000
Deferred Credits & Other Liabilities	<u>6,154,749,000</u>
Total	<u>\$20,037,285,000</u>

Construction Budget

SCE's estimated construction budgets for 2003 through 2005, as shown in Exhibit A, A-29 to the Application, are as follows:

<u>Components</u>	(Millions of Dollars)		
	Estimated		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Electric Generating Plant	118	287	308
Electric Transmission Lines and Substations	210	299	282
Electric Distribution Lines and Substations	598	712	748
Other Plant Expenditures	<u>154</u>	<u>112</u>	<u>92</u>
Total ⁴	1080	1410	1430
Less: Allowance for Funds Used During Construction	<u>-18</u>	<u>-18</u>	<u>-17</u>
Cash Required for Construction Expenditures	<u>1062</u>	<u>1392</u>	<u>1413</u>

We will not make a finding in this decision on the reasonableness of SCE's proposed construction program. Construction expenditures and the resulting plant balances in rate base are normally addressed in general rate cases.

⁴ Based on numbers approved by the company in November 2001.

Cash Requirements Forecast

SCE's estimate of cash requirements for 2003 through 2005 is summarized as follows:

<u>Components</u>	(Thousand of Dollars)			
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>Total</u>
Construction expenditures ⁵	1,360,802	1,482,590	1,496,356	4,339,748
Maturities of long-term debt	1,425,000	125,000	700,000	2,250,000
Rate reduction bonds				
Payments	246,300	246,300	246,300	738,900
Preferred stock redemption	8,750	8,750	8,750	26,250
Short-term debt	<u>300,000</u>	<u>-175,000</u>	<u>-35,000</u>	<u>90,000</u>
Total uses of cash	3,340,852	1,687,640	2,416,406	7,444,898
Estimated net cash available from internal sources (includes proceeds from asset divestitures)	2,237,140	1,388,452	1,321,017	4,946,609
Additional new funds required from outside sources	1,103,712	299,188	1,095,389	2,498,289
Be provided as follows:				
(1) Bonds	1,103,712	299,188	864,350	2,267,250
(2) Preferred equity	0	0	231,039	231,039
(3) Common equity	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	1,103,712	299,188	1,095,389	2,498,289
Internal Generation of Funds	67%	82%	55%	66%

⁵ Different from the construction breakdown due to adjustments and changes in projections (to date not yet formally approved by SCE's management).

Capital Ratios

SCE's capital ratios as of March 31, 2003, are presented below as recorded and adjusted to give pro forma effect to the transactions listed below:

	(Thousands of Dollars)				
	<u>Recorded</u>		<u>Adjustments</u>		<u>Proforma</u>
Long-term debt	5,824,542	55.0%	3,264,635	9,089,177	65.6%
Preferred Stock	278,835	2.6%	-	278,835	2.0%
Common Equity	<u>4,487,365</u>	<u>42.4%</u>	<u>-</u>	<u>4,487,365</u>	<u>32.4%</u>
Total	<u>10,590,742</u>	<u>100.0%</u>	<u>3,264,635</u>	<u>13,855,377</u>	<u>100.0%</u>

1. The \$1,000,000,000 issue of debt and equity (combined and not distinguished for purposes of presenting the pro forma ratios) under the authorization requested in this Application, to be used for the acquisition of property, construction, completion, extension or improvement of SCE's facilities, or reimbursement of SCE's treasury.
2. The proposed issuance and sale of \$750,000,000 Debt Securities requested in A.03-07-029 to finance SCE's fuel inventories.
3. The issuance and sale of \$2,200,000,000 Debt Securities under the authority granted by D.87-09-050 pertaining to balancing accounts.
4. The issuance and sale of \$1,780,600,000 Debt Securities under the authority granted by D.98-02-104 and D.00-10-63 to be used for refinancing debt.
5. The decrease of \$1,500,000,000 in Procurement-Related Obligations Account (PROACT).

6. The planned refinancing (exchange offer) of \$965,965,000 of SCE's Series 2003B securities.

SCE's authorized capital structure as shown in D.02-11-027 dated November 7, 2002, consists of 47% long-term debt, 5% preferred stock, and 48% common stock. SCE indicates in its supplement information to the Application that since its PROACT balance has been fully recovered, it expects to gradually rebalance its capital structure to the authorized levels.

Capital structures are normally subject to review in cost of capital or general rate case proceedings. We will not, therefore, make a finding in this decision of the reasonableness of the projected capital ratios for ratemaking purposes.

Izetta C.R. Jackson is the assigned Examiner in this proceeding.

In Resolution (Res.) ALJ 176-3117 dated August 21, 2003, the Commission preliminarily categorized this Application as ratesetting, and preliminarily determined that hearings were not necessary. No protests have been received. Given these developments, a public hearing is not necessary, and there is no need to alter the preliminary determinations made in Res. ALJ 176-3117.

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Pub. Util. Code 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

Findings of Fact

1. SCE, a California corporation, is a public utility subject to the jurisdiction of this Commission.

2. SCE needs external funds for the purposes set forth in the Application.

3. The proposed Debt Securities and guarantees in respect of the issuance of Debt Securities are for proper purposes and not adverse to the public interest.

4. The proposed issue of Preferred Stock is for proper purposes and not adverse to the public interest.

5. Authorizing SCE to determine the precise amount and timing of each debt issue, the market in and method by which each debt issue is effected, price, interest rate (which may be fixed, adjustable, variable or set by auction or remarketing procedures), and other material terms and provisions of each debt issue and of any Debt Securities related thereto in the manner and subject to the limitations set forth in the Application, would not be adverse to the public interest.

6. SCE's proposal to use a special purpose entity for the purpose of issuing trust preferred securities and to unconditionally guarantee or otherwise secure the entity's payment obligations would be for proper purposes and could offer financial advantages to SCE and its ratepayers.

7. Savings resulting from the difference in costs between raising capital through trust preferred securities and a traditional Preferred Stock issuance will be passed to ratepayers in the annual revisions of SCE's authorized cost of capital.

8. The special purpose entity described in the Application would be under SCE's ownership and control and would engage only in activities in support of SCE's operations.

9. Authorizing SCE to encumber utility assets in the event that such encumbrance will be required to secure the Debt Securities is for proper purposes and is not adverse to the public interest.

10. The Commission does not by this decision determine that the SCE's construction budget, cash requirements forecast, and capital ratios presented herein are necessary or reasonable for ratemaking purposes. These issues are normally tested in general rate case or cost of capital proceedings.

11. The use of credit enhancements, interest rate caps, collars and swaps in appropriate circumstances is not adverse to the public interest. This may provide utility the means to better manage its cost of capital.

12. SCE's swaps and other interest rate transactions should not exceed 20% of its total long-term debt outstanding.

13. Limiting SCE's swaps in connection with this decision to those involving counterparties with investment grade credit ratings of two notches higher than SCE will help keep counterparty risk within acceptable bounds.

14. The reasonableness of any resulting interest rate and cost of money arising from debt capital is normally subject to review in cost of capital or general rate case proceedings.

15. Pub. Util. Code 1904(b) states that there is no fee on such portion of any issue that will be used to guarantee, take over, refund, discharge, or retire any stock, bond, note or other evidence of indebtedness on which a fee has been paid to the Commission.

16. SCE requests several exemptions from the Competitive Bidding Rule. The requested exemptions are identified in the body of this decision. The Commission granted similar exemptions in D.03-06-011.

17. SCE represents that granting the requested exemptions from the Competitive Bidding Rule will help SCE issue debt on terms that are favorable to SCE and its ratepayers.

18. SCE's bond rating as of September 9, 2003 is "BBB-".

19. Notice of the filing of the Application appeared on the Commission's Daily Calendar of July 23, 2003. There is no known opposition to this Application, and the authority requested should be granted.

Conclusions of Law

1. A public hearing is not necessary.
2. The Application should be granted to the extent set forth in the order that follows.
3. Issuing bonds, notes, or guarantees or pledging assets on behalf of a subsidiary or affiliate is allowable under Pub. Util. Code § 701.5.
4. This authorization is not a finding of the value of SCE's stock or property, nor does it indicate the amounts to be included in ratemaking procedures.
5. Res. F-616 allows exemption from the Competitive Bidding Rule for: (1) debt issues in excess of \$200 million, (2) variable rate debt, structured transactions, bank borrowings, and other securities privately placed with specific lenders.
6. Certain bidding procedures and deviations from the Competitive Bidding Rule are permitted in Res. F-616.

7. SCE's request for the exemptions from the Competitive Bidding Rule described in the body of this decision is reasonable and should be granted.

8. SCE should pay the fee determined in accordance with Pub. Util. Code § 1904(b).

9. The following order should be effective on the date of signature.

ORDER

IT IS ORDERED that:

1. On or after the effective date of this order, Southern California Edison Company (SCE), upon terms and conditions substantially consistent with those set forth or contemplated in Application 03-07-030 (Application), is authorized to:

- a. Issue, sell, and deliver one or more series of debt securities, including but not limited to first and refunding mortgage bonds, debt secured by a pledge of its accounts receivable, debentures, notes, preferred securities, overseas indebtedness, foreign currency denominated securities, commercial paper, extendible commercial notes, other floating or variable rate debt, credit or loan agreements, and other evidences of indebtedness (Debt Securities) in an aggregate principal amount not to exceed \$3.0 billion;
- b. Guarantee the Debt Securities of a regulated subsidiary or affiliate of SCE, the proceeds of which may be loaned to SCE or to another regulated subsidiary or affiliate of SCE, and/or to guarantee or otherwise secure the obligations of one or more governmental entities in respect of their issuance of debt securities for pollution control and sanitary and solid waste disposal, or other eligible facilities;

- c. Issue, sell and deliver one or more series of Cumulative Preferred Stock--\$25 Par Value, \$100 Cumulative Preferred Stock--\$100 Par Value, and Preference Stock, or any combination thereof, as authorized in SCE's Articles of Incorporation (Preferred Stock) in an aggregate amount of up to \$300 million par or stated value;
 - d. Renew and/or refund commercial paper, extendible commercial notes and other floating or variable rate Debt Securities, so that the combined term of the obligations may exceed twelve months without the need for further authorization from the Commission, provided that SCE shall maintain or bring down the aggregate amount of short-term borrowings to 5% of the par value of the other securities then outstanding at least once every twelve (12) months;
 - e. Arrange credit agreements or other credit facilities as may be necessary for the purpose of issuing the Debt Securities, and to modify such credit facilities in the manner set forth in the Application without further authorization from the Commission;
 - f. Execute and deliver an indenture or supplemental indenture in connection with any issue of Debt Securities, and to sell, lease, assign, mortgage, or otherwise dispose of or encumber utility property in connection with the issuance and sale of Debt Securities;
 - g. Pledge or otherwise dispose of or encumber its accounts receivable in connection with the issuance and sale of Debt Securities; and
 - h. Issue, sell, and Deliver Debt Securities by public offering or private placement;
2. Trust preferred securities transactions shall be subject to conditions consistent with our findings.

3. SCE may enter into one or more contracts for the purpose of managing interest rates risk. Such contracts could take a number of forms including interest rate cap agreements, interest rate floor agreements, interest rate collar agreements and interest rate swap agreements. SCE may also enter into contracts to reduce the risk of increased interest rates associated with planned financings. Such contracts could include hedging future fixed rate debt issuances such as Treasury locks, caps and collar agreements. This authority shall not to be considered as separate debt for purposes of calculating the remaining financing authorization granted by this order.

4. SCE is limited to entering into swap and hedging transactions aggregating no more than 20% of its total long-term debt outstanding.

5. Swap and hedging transactions, and other derivative financial instruments carrying potential counterparty risk which SCE received in connection with long-term debt, shall have counterparties with investment grade credit ratings of two notches higher than SCE.

6. SCE shall separately report all interest income and expense arising from all swap and hedging transactions in its report to the Commission.

7. If SCE elects to terminate a swap or hedging transaction before the original maturity or the swap or hedging partner terminates the agreement, all costs associated with the termination shall be subject to review in a ratemaking proceeding.

8. SCE shall make available, within 30 days of request: (i) a report that would include a summary of the swap or hedge transaction, including but not limited to the term, costs of the transaction (fees or other expenses), dollar amount involved, and SCE's rationale for the transaction and (ii) SCE's estimated costs for the "alternative" or unhedged transaction.

9. SCE shall file a new application and pay the corresponding fee if it uses more than \$1,000,000,000 of the total authorized amount in this order for acquisition of property or for the construction, completion, extension or improvement of facilities.

10. SCE shall enter into interest rate swap and hedging contracts only when it is expected that such arrangements will provide an overall cost of money lower than that available through the issuance of alternate Debt Securities.

11. SCE's debt issues with principal amounts greater than \$200 million, variable rate debt securities, and negotiated financing transactions are exempt from the requirements of the Commission's Competitive Bidding Rule. When SCE's bond rating rises to "A", all issues of fixed-rate bonds and debentures (other than tax-exempt securities) over \$20 million but not greater than \$200 million are subject to the Competitive Bidding Rule.

12. Consistent with the modifications to the Competitive Bidding Rule set forth in Resolution No. F-616, SCE is authorized to:

- a. Shorten the period of time between the issuance of an invitation for bids and the scheduled receipt of bids to a period which is the shortest time reasonably required in order to obtain a sufficient number of bids from underwriters or purchasers or groups thereof (which time period may be as short as a few hours);
- b. Accelerate, postpone or cancel the scheduled date and time for the receipt of bids;
- c. Reject all bids submitted, request the resubmission of bids, reschedule subsequent receipt of bids, and vary the amount, terms, and conditions of the Debt Securities submitted for bids; and
- d. Waive the requirement for newspaper publication of the above items.

13. On or before the 25th day of the month following each quarter, SCE shall file the reports required by General Order No. Series 24-B.

14. The authority granted by this order shall become effective when SCE pays \$506,000⁶ as required by Pub. Util. Code § 1904(b).

15. The Application is granted as set forth above.

⁶ The amount subject to the fee is \$1,000,000,000 (\$300,000,000 Preferred Stock + \$3,000,000,000 Debt Securities less \$2,300,000,000 proceeds to be used to refinance long-term debt). The fee is determined as follows: $(\$2 \times (1,000,000/1,000)) + (\$1 \times 9,000,000/1,000) + (\$0.50 \times (990,000,000/1,000)) = \$506,000$.

16. Application 03-07-030 is closed.

This order is effective today.

Dated _____, at San Francisco, California.